

STREET RETAIL

HI 2020

Experts from Knight Frank distinguish three locations of street retail premises:

- pedestrian streets with high pedestrian traffic*;
- central retail streets with transport and pedestrian traffic**;
- main avenues.

The report examines in detail the situation in each submarket.



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«Coronavirus pandemic was one of the most significant events of H1 2020 and had an impact on the Moscow street retail market, which led to the record-high share of vacant retail premises on pedestrian, transport and pedestrian streets. The decrease in the vacancy rate can be expected not earlier than mid-2021.

However, even today, we see a gradual increase in demand from tenants and investors. We expect the market to revive in autumn 2020 and retail streets to recover in Q1 2021.

Although an opportunity for tourist flows recovery is uncertain, the prime pedestrian streets where main tourist traffic was concentrated, remain attractive now».



Conclusions

- ♦ By the end of H1 2020, the total street retail space amounted to 583,600 sq m, the average size of premises amounted to 194.4 sq m, the new supply was not recorded over half of the year.
- ♦ Food & beverage (F&B) is the leader in tenants profile with the following shares: 48% on the pedestrian streets within Garden Ring, 38% on the transport and pedestrian streets.
- ♦ Cafes and restaurants on the pedestrian, transport and pedestrian streets were the most affected by a self-isolation regime in Moscow: their share decreased significantly in H1 2020.
- ♦ As of H1 2020, the share of vacant retail premises on pedestrian, transport and pedestrian streets is record-high since 2015.
- ♦ The vacancy rate did not reach the maximum on the Garden Ring and the main avenues of the city, outdone by the values of 2017 and 2015.
- ♦ Supply of street retail premises in remote districts and within new transport hubs is forecasted to increase.

Supply

By the end of H1 2020, the total street retail space amounted to 583,600 sq m, the average size of premises amounted to 194.4 sq m, the new supply was not recorded over half of the year.

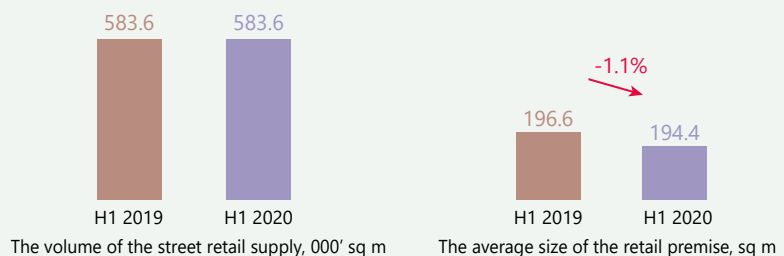
The volume of retail space in the Moscow central pedestrian streets amounted to 110,800 sq m. There was no new supply over the course of the year.

The volume of new supply over the year amounted to 1,400 sq m and 2,000 sq m on the central transport and pedestrian streets and the main avenues of the city, respectively.

It should be noted that as of July 2020, approximately 15,000 sq m of street retail space is in buildings under reconstruction (Nikolskaya St., Arbat St.).

The decrease in the average area of retail premises is one of the current trends: 194.4 sq m in 2019 against 196.6 sq m in 2018. This trend is primarily due to the demand from the market and retail operators seeking to be closer to consumers. The smaller format allows retailers to enter more properties, while larger rental area reduces the number of possibilities. Moreover, small premises are predominant in new projects of developers.

Dynamics of the street retail supply, 2020, YoY Change



* Based on 14 pedestrian streets or their parts that are most sought-after by retail operators: Arbat, Kuznetskiy Most (partially), Nikolskaya, Rozhdestvenka (partially), Kamergerskiy Lane, Stoleshnikov Lane, Tretyakovskiy Passage, as well as several locations within Yakimanka and Zamoskvorechye Districts.

** Based on 47 central trade corridors within the Garden Ring (including the streets of the Garden Ring) that are most popular with retailers.

Source: Knight Frank Research, 2020

year). Fashion retailers account for 23.9% of total space (increase by 6 p. p.), gifts and souvenirs account for 4.6%. A share of other tenants does not exceed 4.5%.

Food & beverage sector with a share of 38% leads on the transport and pedestrian streets as well (decrease by 0.4 p.p. over the year), leisure concepts have a share of 8.8% (increase by 0.2 p.p.), bank offices rent 8.7% of premises (decrease by 0.7 p.p.), grocery stores occupy 8.3% of premises (increase by 1.1 p.p.), fashion operators accounted for 8% (increase by 2.2 p.p.). Fashion operators and grocery stores showed the largest increase in retail space over the year, while banks and financial institutions showed the largest decrease.

Cafes and restaurants on the pedestrian, transport and pedestrian streets were the most affected by a self-isolation regime in Moscow: their share decreased significantly in H1 2020. The volume declined by 9% on the Moscow key pedestrian streets. Dve Palochki and Coffee House are among restaurant chains that reduced their outlets. Non-chain cafes and restaurants, such as Brasserie Most on Kuznetsky Most and several operators on Arbat street, were also closed. Shokoladnitsa, Dzhon Dzholi, Prime, Khleb i Vino, Jean-Jacques shut down on the transport and pedestrian streets. A significant number of restaurant concepts stopped working on Maroseyka St., Myasnitskaya St., Pokrovka St. and Pyatnitskaya St.

On the other hand, supermarkets and speciality stores increased their presence by 6% on the Moscow pedestrian streets. Vkusvill, Dobryninsky, Pyaterochka, Miratorog, Alenka and Pirat-Marmelad are among the new openings.

The tenants breakdown by profiles on the Moscow main avenues is more diverse. Household stores with a share of 16.8% take a leading position by occupied retail space, they are followed by F&B operators with a share of 14.6% (increase by 1.4 p.p. over the year) and grocery stores (a share of 14.4%, increase by 2.8 p.p.). The latter showed the largest increase in retail space over the year. Furthermore, the area of household stores and pharmacies increased significantly by 2.3 p. p. and 1.8 p. p., respectively. Household stores (interior and furniture salons, finishing materials stores, etc.) hold a quarter of total supply (24%) on Komsomolsky and Leninsky Avenues. F&B sector on Mira Avenue and Leningradsky Avenue lead with shares of 19% and 22%, while the share of household stores is only 9% and 5%, respectively.

Food & beverage

F&B operators are the most active regarding premises located on the pedestrian, transport and pedestrian corridors of the city and hold the largest share in supply: 48% and 38% (decrease by 6.4 and 0.4 p.p. over the year), respectively. A significant

number of cafes and restaurants are located on Klimentovskiy Lane (73% of total supply), Kamergersky Lane (63%), Arbat St. (46%), Nikolskaya St. (45%), B. Dmitrovka St. (50%) and Pyatnitskaya St. (46%). While the share of these tenants on the main avenues is significantly lower and amounts to 14.6%.

Within the Garden Ring, food operators are mainly represented in premises with an area from 100 to 200 sq m (24%) and 200 to 300 sq m (21%). The minimum percentage (8.9%) of restaurants is in outlets with an area of more than 1,000 sq m.

Foodhalls have been actively developing over the last two years. As of H1 2020, there are 16 foodhalls located on the main retail streets and the first floors of office complexes. This format is also successful within the renovated Moscow food markets: Danilovsky, Usachevsky, Cheremushkinsky, Central markets on Maroseyka St. and Rozhdestvensky Boulevard.

Less than a one-fifth of foodhalls shut down during the isolation period. Almost all of the functioning foodhalls launched delivery or a take-away option: it is possible to order directly from websites of some markets (Usachevsky market, Market on Leninsky Avenue), or from Yandex.Eda and Delivery Club (Central market, Greenmarket). It should be noted that almost all corners had already arranged their delivery services before the quarantine period.



The foodhall format meets the current needs of customers by providing quality food, pleasant atmosphere, and affordable prices. Therefore, the most successful projects will not cease to exist after restrictive measures and will remain popular among consumers. Those who are used to eat in author's gastronomic foodhalls, will not go to cheaper and less usual places.

By the end of 2020, it is planned to open four more projects by Zemskiy Group: FoodCity in Shchelkovsky SEC, Fresh Market, Yuzhnoye Butovo, Koptevsky Market. Eat Market was opened on Vernadsky Avenue in August 2020. At the same time, new projects that launched again may not have the same high consumer demand as Depo, Central or Danilovsky markets. Such new foodhall projects will not be a unique offer on the F&B market in most cases.

However, after removing restrictions at the end of June 2020, the revenue of functioning cafes and restaurants in Moscow was more than 60% of pre-crisis figures. As a result of deferred demand due to the self-isolation period, consumers began to visit newly opened cafes and restaurants without any concerns. In June 2020, the revenue of restaurants and cafes in the most popular locations of Moscow with author's concepts, such as Patriarch's Ponds, was 50-90% more than in the same period last year, and twice as much as in premises in other central districts. In this location, the operators returned to pre-crisis levels even before the opening of restaurant halls.

Vacancy

By the end of H1 2020, there was a significant increase in vacant street retail premises in almost all trade corridors of Moscow due to serious restrictive measures. The most affected locations were the pedestrian, transport and pedestrian streets, where tourist and business traffic was concentrated, and tenants profile was mainly represented by F&B operators and non-food stores (clothing, footwear, etc.).

In H1 2020, the maximum increase was on the transport and pedestrian streets (by 5.5 p.p.), where the vacancy rate was 12.9% against 7.4% at year-end 2019. Among the Moscow central transport and pedestrian streets, significant changes occurred on Maroseyka St., Myasnitskaya St., Pokrovka St. and Pyatnitskaya St.

Dynamics of the vacancy rate on the street retail market, H1 2020 vs H2 2019

Indicator	H2 2019	H1 2020	Dynamics
Pedestrian streets	5.9%	9.9%	+4.0
Transport and pedestrian streets	7.4%	12.9%	+5.5
The Garden Ring	11.9%	9.9%	-2.0
Main avenues	13.4%	16.8%	+3.4
Кутузовский проспект	21,6%	25,5%	- 3,6

Source: Knight Frank Research, 2020

Vacancy changes in street retail, 1H 2020 to 1H 2019

Street or shopping area	Rental rate, 000' RUB per sq m per year, no VAT included				
	H1 2019		H1 2020		Annual change, p.p.
	min	max	min	max	
Kuznetsky Most St.	65	220	80	220	0%
Stoleshnikov Lane	180	270	100	200	-26%
Nikolskaya St.	70	160	90	160	0%
Tverskaya St. (the section from Okhotniy Ryad metro station to Pushkinskaya metro station)	45	160	45	150	-6%
Patriarch's Ponds	70	130	70	140	8%
Myasnitskaya St.	65	145	65	125	-14%
Arbat St.	60	125	60	125	0%
Pyatnitskaya St.	35	125	35	125	0%
Petrovka St.	45	220	50	170	-23%
Mira Avenue	30	145	30	120	-17%
Kamergersky Lane	60	120	70	110	-8%
Novy Arbat St.	45	105	50	105	0%
The Garden Ring	30	80	30	80	0%
Kutuzovsky Avenue	35	90	30	75	-17%

* The data is arranged according to the upper range in 2020.

Source: Knight Frank Research, 2020

Every fourth premise on Myasnitskaya St. became vacant.

The vacancy rate on the pedestrian streets and the main avenues increased by 4 p.p. and 3.4 p.p., respectively. Among the main pedestrian streets, the share of vacant space increased the most on Arbat St., reaching 14%, which is 11 p.p. higher than 2019 figures.

Currently, the total volume of vacant space in Moscow street retail premises is approximately 107,700 sq m, which is equivalent to the area of two large shopping centres.

Rental rates

By the end of H1 2020, the highest requested rental rates are for the premises located on Kuznetsky Most St. and Stolesnikov Lane.

The minimum rental rate in H1 2020 did not change and amounted to 30,000 RUB/sq m/year (Mira Avenue, the Garden Ring, Kutuzovsky Avenue).

A decrease in the upper limit of rental rates was noted in most key street retail locations of the city: by 6%-23% depending on the street. This indicator decreased on Petrovka St., Mira Avenue, Kutuzovsky Avenue, Myasnitskaya St., Tverskaya St., Stolesnikov Lane and Kamergersky Lane.

An increase in the upper limit of rental rates was recorded only in the district of Patriarch's Ponds: from 130,000 to 140,000 RUB/sq m/year.

An increase in the lower limit of rental rates was on Kuznetsky Most St.: from 65,000 to 80,000 RUB/sq m/year, Nikolskaya St.: from 70,000 to 90,000 RUB/sq m/year, Novy Arbat St.: from 45,000 to 50,000 RUB/sq m/year.

Forecasts

In H1 2020, restrictive measures to prevent the spread of coronavirus infection had a key impact on current and future retailers expansion on the Moscow street retail market. Due to the self-isolation regime, most shopping, entertainment, and F&B facilities were closed. Currently, operators are gradually recovering after removal of the self-isolation regime. In the future tenants will react according to the behaviour of domestic consumers. We will be able to see more obvious trends by the end of the year.

If traffic and consumer activity increase, retailers activity will also recover. Morning and afternoon visits will increase more rapidly as employees return to offices, while travel, entertainment and family visits will increase more slowly. A decrease in the vacancy rate on the main Moscow retail streets to pre-crisis level can be expected not earlier than mid-2021, and not earlier than the end of 2021 at the more pessimistic forecast. It is caused by a decrease in visitor capacity due to new security measures, customers caution after the last months, and a decline in population incomes. However, the tenants profile on the main retail streets will remain the same: new restaurants are already opening instead of the closed ones, the same applies to other profiles.

More than 40 streets and other public spaces were planned to renovate in 2020, but due to coronavirus epidemic in Moscow, the spending on upgrading projects has been suspended so far. Leninsky Avenue, Profsoyuznaya St., Krasnaya Presnya St., Andropov Avenue, Entuziastov Highway, lanes located between Arbat St. and Prechistenka St. were planned to be renovated this year as a part of the program «My Street». However, some of the contracts concluded before the quarantine are not suspended,

but some of them were postponed to 2021. Contracts on upgrading Entuziastov Highway, Lipetskaya St. and Proletarsky Avenue, Kuskovo Park, Taras Shevchenko and Berezhkovskaya Embankments were not cancelled.

Despite the later implementation of the city authorities plan to create a comfortable urban environment, it will still have an impact on further growth of pedestrian flows. Vacant space on the main avenues will be gradually reduced. Vacant premises will be occupied by operators whose target audience is consumers living in the closest proximity (supermarkets, banks, and services).

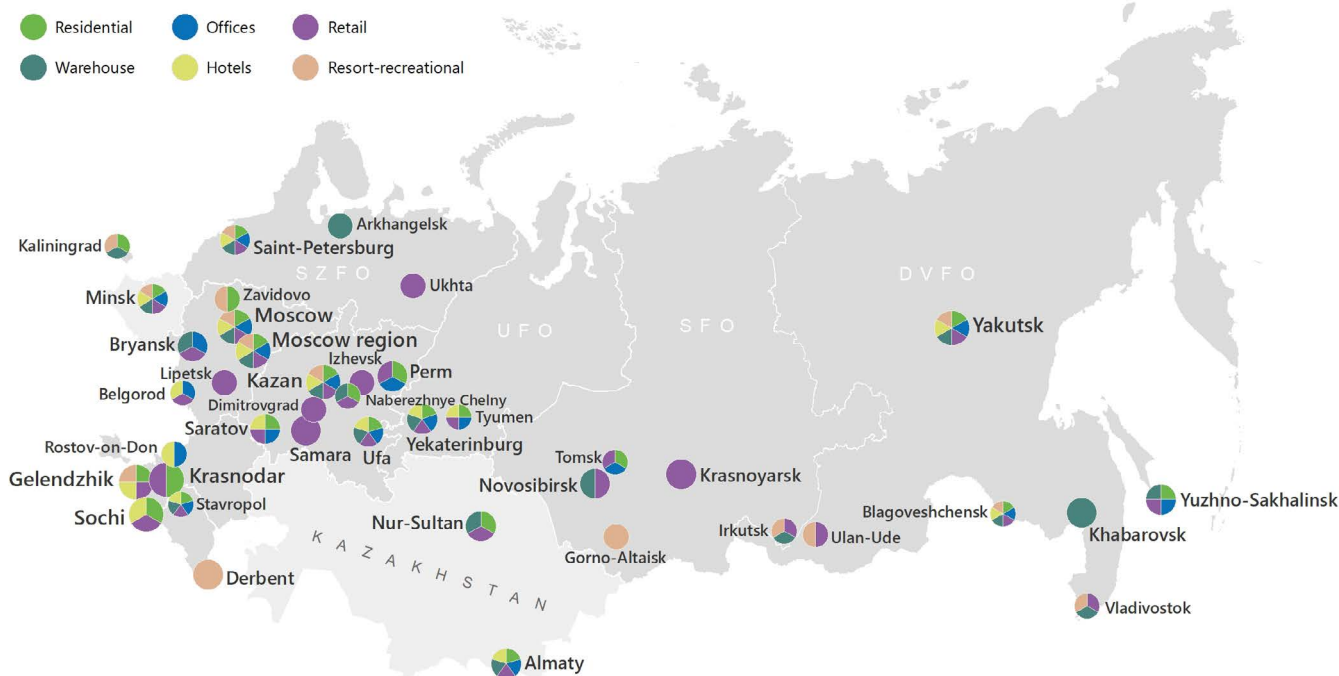
«My District», the new program of Moscow City Government for the improvement of remote residential districts, which was launched at the end of 2018, as well as development of transport infrastructure (Subway, MCC, Moscow Central Diameters) and the upgrading of adjacent to stations areas will have a significant impact on the increase in a new supply of street retail premises. Small format premises in remote neighbourhoods will be popular among operators and consumers because the population will choose a store in the nearest proximity to their homes against the current epidemiological situation.



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